

AP ECON: THE BASICS!

Scarcity, Choice, and Opportunity Cost

- ⦿ *Human wants are unlimited, but resources are not.*
- ⦿ Three basic questions must be answered in order to understand an economic system:
 - What gets produced?
 - How is it produced?
 - Who gets what is produced?

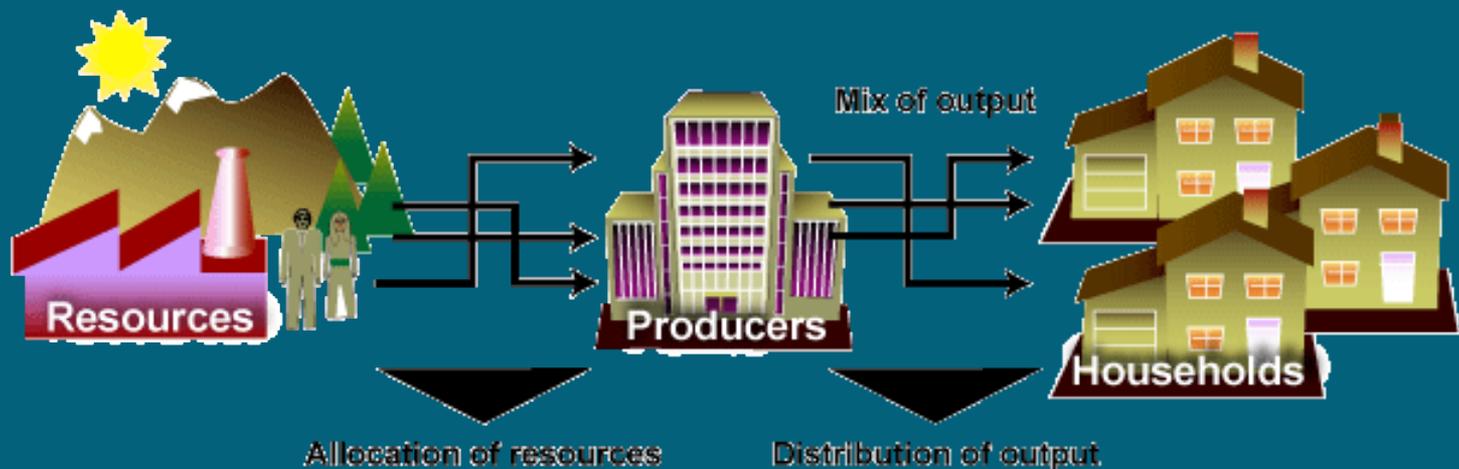
Scarcity, Choice, and Opportunity Cost

The three basic questions:

1. What gets produced?

2. How is it produced?

3. Who gets what is produced?



- Every society has some system or mechanism that transforms that society's scarce resources into useful goods and services.

Scarcity

- ⦿ Basic problem of ALL economics
- ⦿ Unlimited wants/needs, limited resources
- ⦿ Is an item scarce? Ask two questions:
 - Is it limited in quantity?
 - Is it desirable for multiple uses?
 - If yes to both, it's scarce.
- ⦿ Is everything scarce?



LESS SCARCE

- Large quantity,
few uses, low
demand

MORE SCARCE

- Small quantity,
many uses, high
demand

Scarcity Situations

- Old books that, for 2 years, have sat on a shelf that reads “Free! Take One.”
- Oil in Saudi Arabia
- One book, 5 students needing to study the book for a quiz
- Diamonds
- Oil in England
- A \$10 bill to a millionaire
- An MVP basketball player
- A copy of Mr. Cannon’s tests
- VHS Tapes to a 10 year old
- Knowledge of Economics

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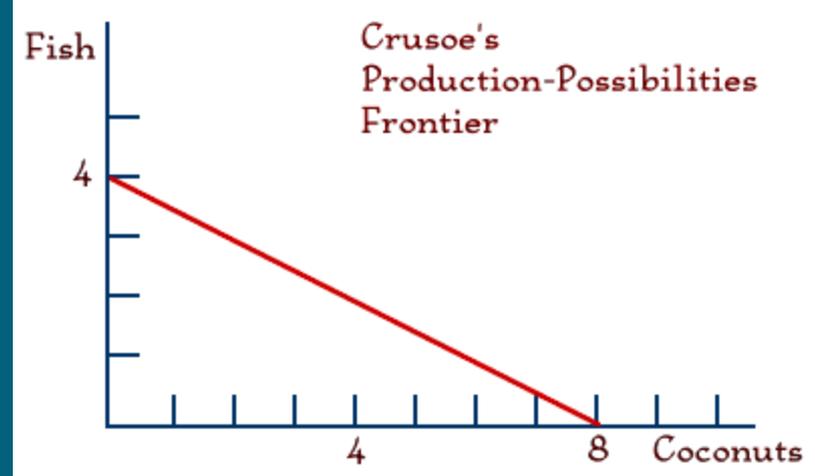
Opportunity Cost

- Results from scarcity
- Opp. Cost is the thing GIVEN UP in choice
 - It is the **NEXT BEST** alternative
- Mall food court example
- **NEXT BEST!!!!!!!**



Production Possibilities Curve (PPC)

PPC



- ⦿ a graph that shows the trade-off between **two** production options
 - A visual representation of OPPORTUNITY COSTS
- ⦿ 2 Assumptions:
 - The company/country is ONLY producing the two goods on the graph
 - The company/country desires to use ALL of their resources

PPC – an example

- Suppose a country makes Pencils and Pens.
- If they devoted ALL of their resources to pencils, they could make 500 a day
-to pens, they could make 300 a day

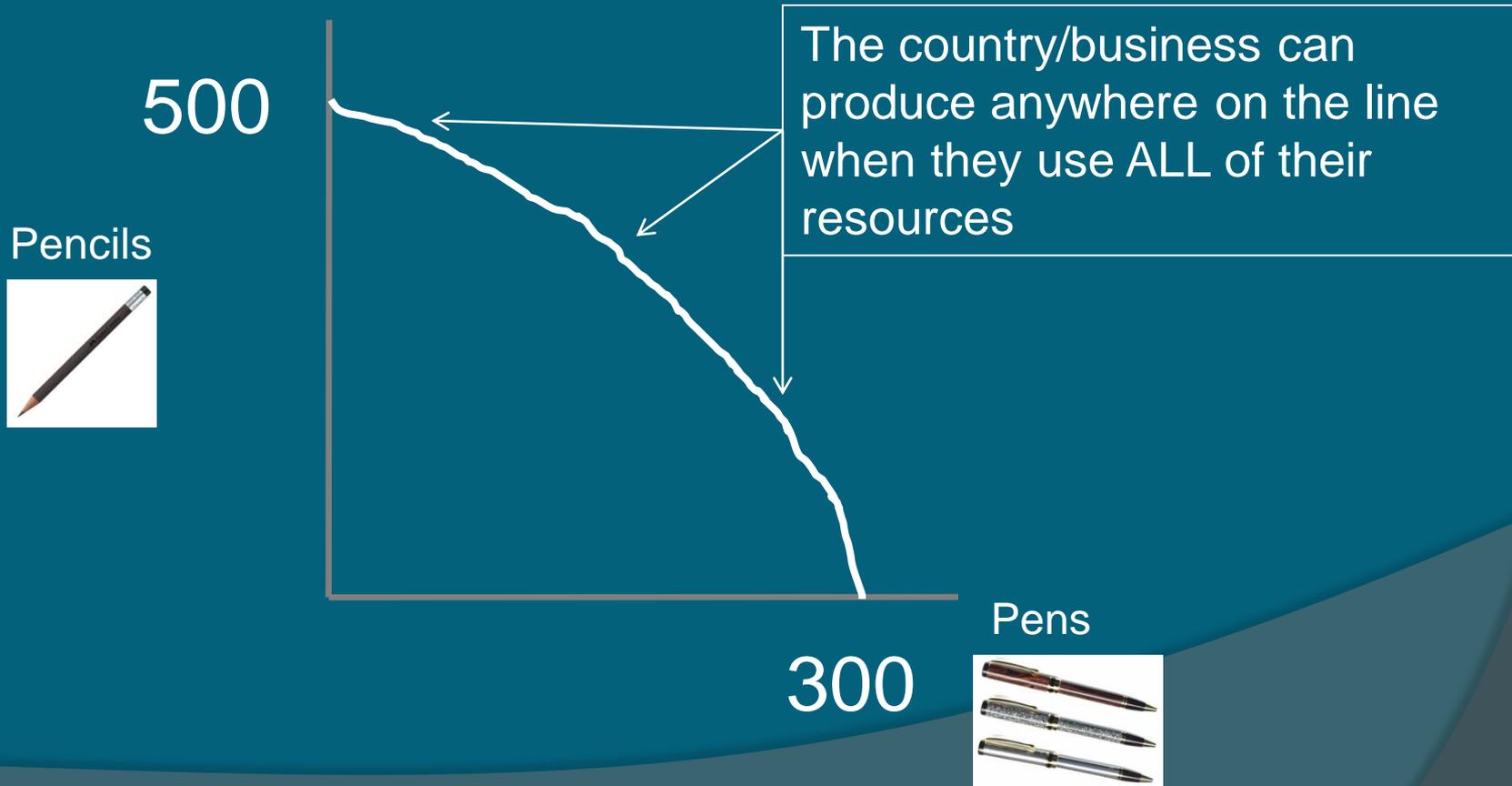


500

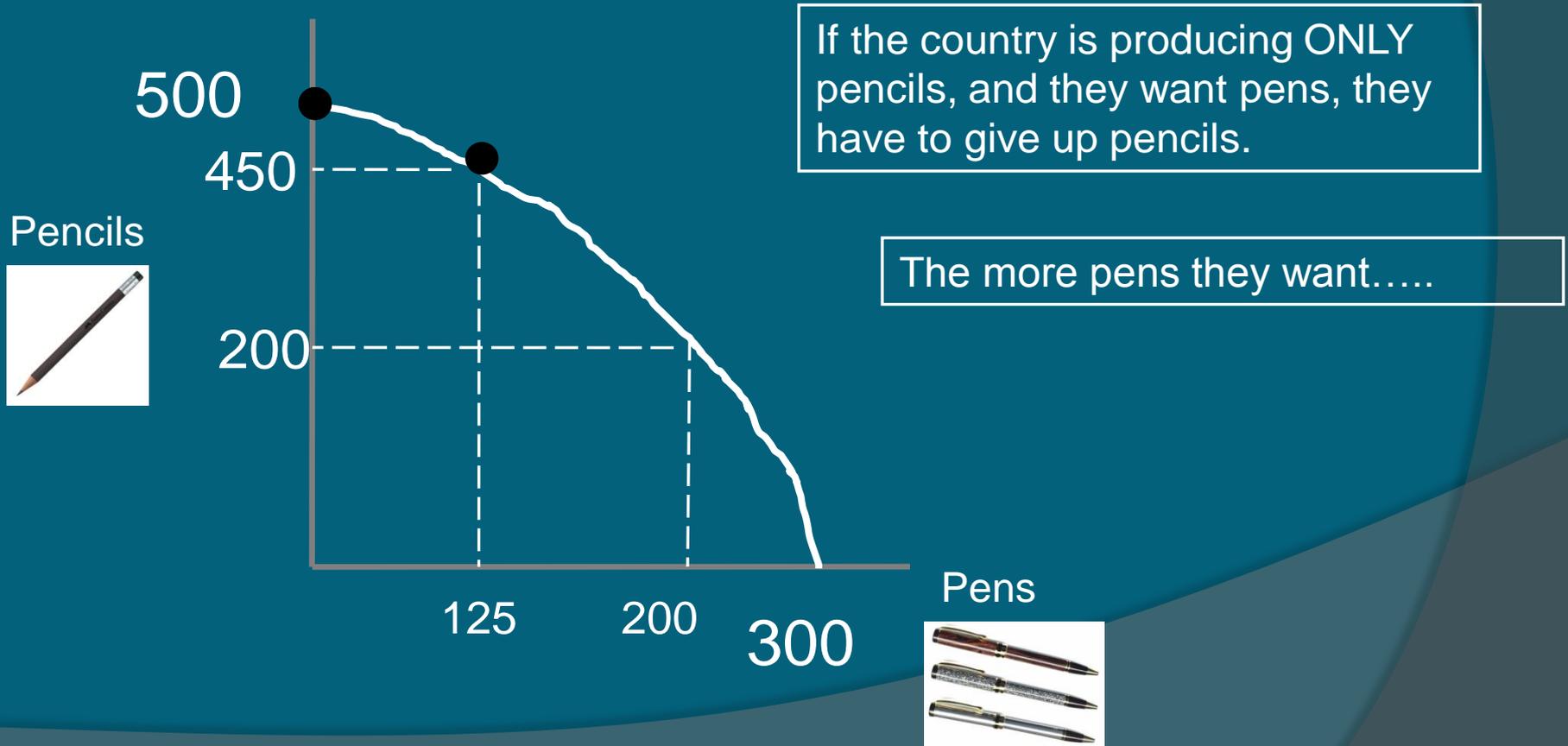


300

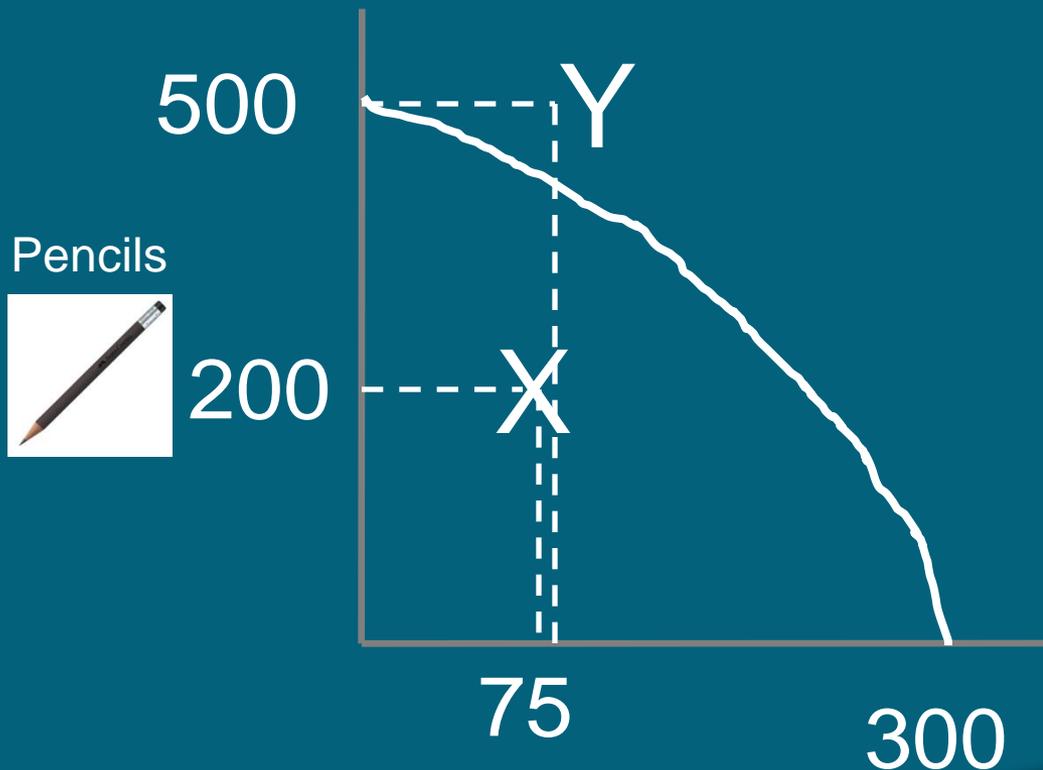
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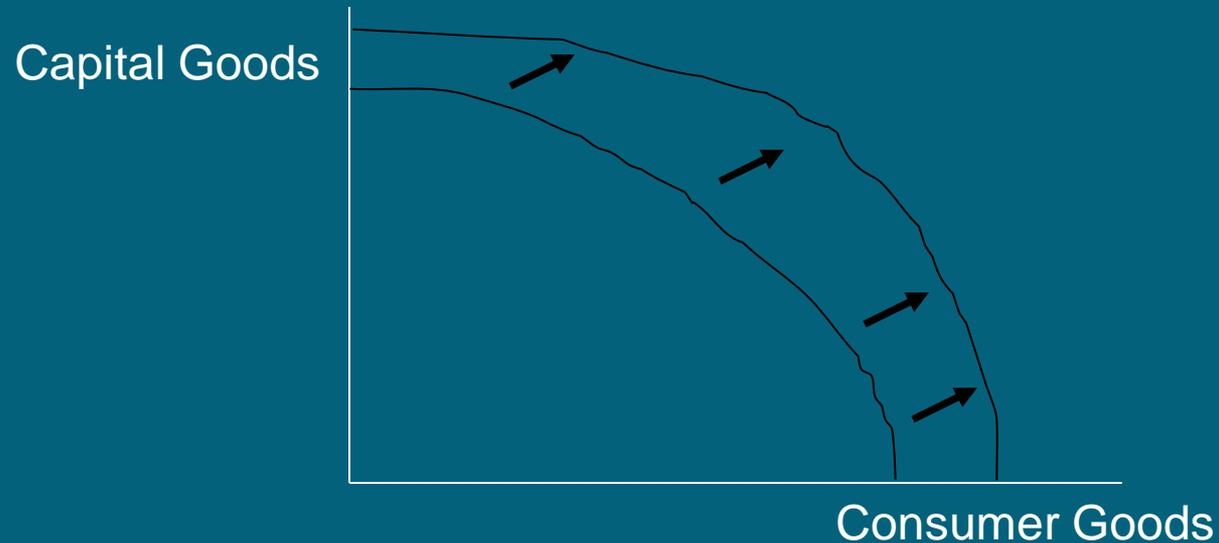


At point X, the country or business is producing below its possibilities and is **INEFFICIENT**

At point Y, the country or business is producing beyond its possibilities and is **NON-SUSTAINABLE**.



Economic Growth



- Not 1 magical thing, combination of several factors
- Increasing overall productivity is key

What is economics?

- Study of choices
- How do people deal with scarcity?
- What is given up in the choice?
- What goal is achieved by the choice?
- Who makes the choice?
- Can the choice be more efficient?

Macro vs. Micro

- Scope of the choices
- (see page 8 in book)



- MICRO

- Individuals, firms, small markets



- MACRO

- National/international in scope
- Governments and countries

Micro or Macro?

- ⦿ Income tax rates
- ⦿ Job loss in the steel industry
- ⦿ Setting the price of Barbie Dolls
- ⦿ How much money is in the economy
- ⦿ International exchange rates
- ⦿ Cost to produce automobiles
- ⦿ Stock market

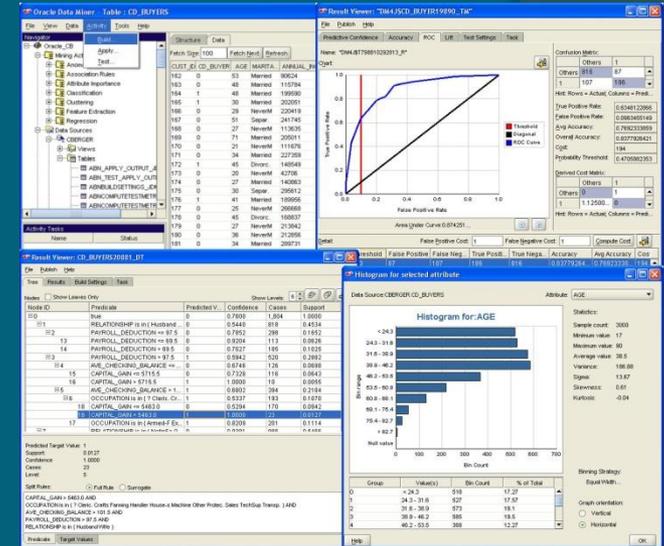
Positive vs. Normative

- Positive economics

- Study of what IS
- Uses data to describe current situations or theories

- Normative Economics

- Study of what COULD be
- Policies...what SHOULD be done?



Economic Models

- ⦿ Many theories based on MODELS, NOT real life
- ⦿ CETERIS PARIBUS!!!!!!!
 - All else held constant
 - Limits the “what ifs....”

Rational Decision Making

- Most models assume people are rational
- Rational decision making involves MARGINAL thinking

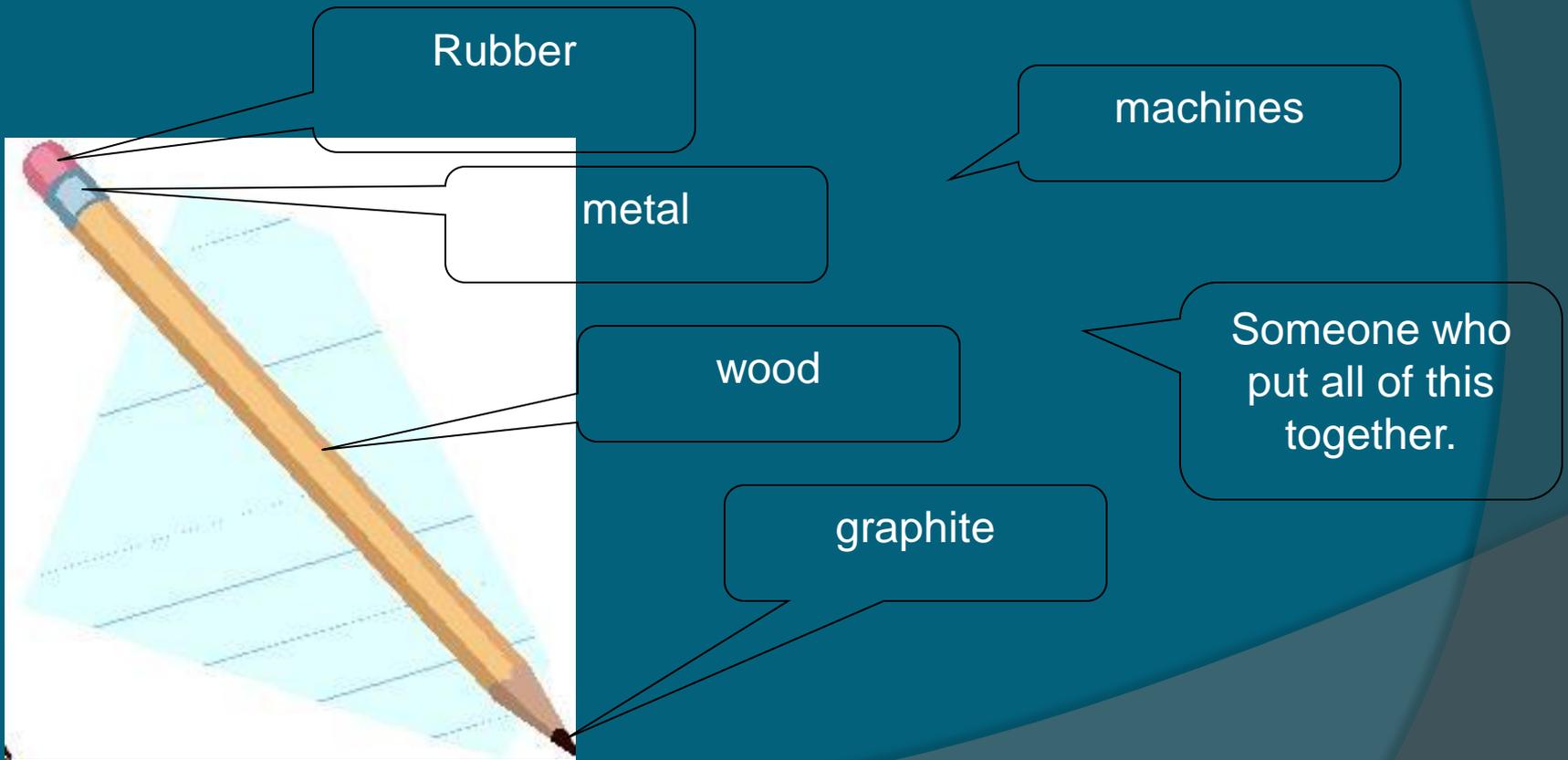
Factors of Production (Productive Resources)

Factors of Production

- What went into making this?



What went into this?



4 Categories of Productive Resources (Factors of Production)

LAND

- Natural, renewable resources
- wood, rubber, graphite, land, animals

CAPITAL

- A produced good used in the production of another good
- Machines, computers, buildings, etc

LABOR

- Human resources, people
- MENTAL and PHYSICAL

ENTREPRENEURSHIP

- The person or group responsible for putting the other 3 together to produce something